

Rutherford County Debt Report
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Presented to the Rutherford County Board of Commissioners and the
Rutherford County Board of Education on March 4, 2009

Introduction

The following report is provided to supply information in relation to Rutherford County's issued debt. This report is divided into the following sections: Rutherford County Debt History, Purpose of Rutherford County Indebtedness, Rutherford County Legal Debt Margin and Statewide Debt Comparison, Rutherford County Debt Detail, Components of Understanding Debt, Value of Debt Financing, Current Status of School Capital Reserve Fund, County Building Capital Reserve Fund and Water and Sewer Capital Reserve Fund, and Summary.

An additional purpose of this report is to provide Commissioners and School Board Members with factual information to make decisions on future debt issuances. In addition, this report can serve as valuable information to the public in order to better understand this issue in both historical terms and the present.

Rutherford County Debt History

Beginning in 1990, Rutherford County began an aggressive building program, principally in the area of school construction. As Chart One, **Summary of Debt Outstanding as % of Property Value for Fiscal Years Ending 1990-2009** shows, Rutherford County has incurred \$137,982,429 in debt during this twenty year period. The debt incurred in FY2008-2009 will add \$5,938,838 to the previous debt balance on 6-30-08 of \$71,921,640. This will result in a projected debt balance of \$69,983,857 on 6-30-09 based on the debt payments scheduled to be made in FY2008-2009 in the amount of \$7,876,621.

Rutherford County's debt as a percentage of property value peaked in 1994 at 2.37%. As this chart shows it is projected to be 1.19% on 6-30-09. This will be a seven year low based on property values. In other words, it will be at a seven year low based on the county's theoretical ability to pay.

Chart One: Rutherford County, NC
Summary of Debt Outstanding as % of Property Value
For Fiscal Years Ending 1990 - 2009

							Debt as % of
<u>FY</u>							
<u>Ended</u>	<u>Beg Debt Balance</u>	<u>Debt Incurred</u>	<u>Debt Paid</u>	<u>End Debt Balance</u>	<u>Property Valuation</u>	<u>Prop Value</u>	
2009 \$	71,921,640	\$ 5,938,838	\$ 7,876,621	\$ 69,983,857	\$ 5,868,300,000		1.19%
2008 \$	58,234,686	\$ 20,009,270	\$ 6,322,316	\$ 71,921,640	\$ 5,763,453,000		1.25%
2007 \$	55,990,633	\$ 7,906,198	\$ 5,662,145	\$ 58,234,686	\$ 4,268,223,000		1.36%
2006 \$	53,864,028	\$ 7,157,800	\$ 5,031,195	\$ 55,990,633	\$ 4,101,537,000		1.37%
2005 \$	57,140,178	\$ 1,139,009	\$ 4,415,159	\$ 53,864,028	\$ 3,952,494,000		1.36%
2004 \$	60,545,049	\$ 767,335	\$ 4,172,206	\$ 57,140,178	\$ 3,900,698,000		1.46%
2003 \$	32,398,883	\$ 31,252,470	\$ 3,106,304	\$ 60,545,049	\$ 3,929,689,000		1.54%
2002 \$	31,858,631	\$ 3,753,000	\$ 3,212,748	\$ 32,398,883	\$ 3,211,673,000		1.01%
2001 \$	34,438,725	\$ 536,658	\$ 3,116,752	\$ 31,858,631	\$ 3,134,189,000		1.02%
2000 \$	36,269,549	\$ 1,198,115	\$ 3,028,939	\$ 34,438,725	\$ 3,087,216,000		1.12%
1999 \$	38,125,370	\$ 1,099,000	\$ 2,954,821	\$ 36,269,549	\$ 3,016,565,000		1.20%
1998 \$	41,008,127	\$ 200,000	\$ 3,082,757	\$ 38,125,370	\$ 2,985,107,000		1.28%
1997 \$	43,614,055	\$ 496,134	\$ 3,102,062	\$ 41,008,127	\$ 2,799,619,000		1.46%
1996 \$	45,701,361	\$ 970,674	\$ 3,057,980	\$ 43,614,055	\$ 2,691,902,000		1.62%
1995 \$	47,452,894	\$ 1,125,175	\$ 2,876,708	\$ 45,701,361	\$ 2,611,532,000		1.75%
1994 \$	37,098,662	\$ 13,489,389	\$ 3,135,157	\$ 47,452,894	\$ 2,005,663,000		2.37%
1993 \$	29,015,112	\$ 10,001,719	\$ 1,918,169	\$ 37,098,662	\$ 1,988,630,000		1.87%
1992 \$	30,759,356	\$ 208,500	\$ 1,952,744	\$ 29,015,112	\$ 1,958,331,000		1.48%
1991 \$	16,535,880	\$ 15,343,500	\$ 1,120,024	\$ 30,759,356	\$ 1,912,581,000		1.61%
1990 \$	1,578,695	\$ 15,389,645	\$ 432,460	\$ 16,535,880	\$ 1,879,706,000		0.88%
Totals		\$ 137,982,429	\$ 69,577,267				

* Total incurred and paid have been adjusted for refinancings of \$25,410,000 that occurred in FY 2003 and \$25,575,000 in FY 1994. These figures are net of the amount refinanced and the new financing to not inflate the amounts incurred and paid.

Purpose of Rutherford County Indebtedness

Rutherford County's debt is divided into five categories: Public School financing, county building financing, water and sewer financing, lease purchase short term debt, and ICC building financing.

Public School Financing:

A total of \$54,543,013, or over 75% of the county's debt relates to educational facilities. This debt is being serviced by the School Capital Reserve Fund (with the exception of a portion of the Lifelong Learning Center which is paid by the County Building Capital Reserve Fund). Revenues for the School Capital Reserve Fund come from 94% of the Article 40 sales tax, 60% of the Article 42 sales tax, ADM funds set aside by the state from corporate income tax, lottery funds and interest earnings. The County is required by State statute to use 30% of Article 40 and 60% of Article 42 sales tax, the ADM funds and the lottery funds, as well as the interest earned on all of these, for school construction and/or capital needs.

County Building Financing:

A total of \$11,096,196, or over 15%, of the county's debt relates to the county building program. For the most part, this debt is being serviced by the County Building Capital Reserve Fund. Revenues for the County Building Capital Reserve Fund come from 40% of the Article 42 sales tax, 2.1 cents of the county property tax and interest earnings. In addition, two debt issues with amounts outstanding of \$960,071 and \$1,213,334 are repaid by the general fund. These are for the 74 Corporate Center.

Water and Sewer Financing:

A total of \$3,239,830 or 4.5% of the county's debt relates to the County Water and Sewer Capital Reserve Fund. This debt is being serviced by 7% of the Article 39 one cent of county sales tax, tap fees, and interest earnings.

Lease Purchase Short Term Debt

A total of \$3,042,601 or 4.23% of the county's debt relates to lease purchase. Annual purchases of vehicles, computer technology equipment and other capital items are financed for periods from three to five years. These amounts are paid by the fund that benefits from the purchase (i.e. general, 911, Register of Deeds Automation Enhancement, etc.)

ICC Building Financing:

Revenues for the ICC Capital Reserve Fund come from 6% of the Article 40 sales tax and interest earnings. Currently ICC has used funds from their building fund to pay annual capital cost. This is included for informational purposes since these funds have a dedicated revenue stream and the college may request the ability to borrow funds in the future.

The attached Appendix One, **Detail for Rutherford County Debt 6-30-2008**, illustrates each debt issuance by purpose, amount, payment source and final payment date.

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Rutherford County Debt Detail

Rutherford County's total debt is \$71,921,640 as of June 30, 2008. As stated in the previous section, Appendix One, **Detail for Rutherford County Debt**, outlines the county's debt by purpose, amount, payment source, and final payment date.

Chart Two below, **Summary by Source of Payment**, groups the county debt by source of payment.

Chart Two: Summary by Source of Payment		
Total debt to be paid from School Capital Reserve	\$54,098,104	Represents 75.22% of total debt
Total debt to be paid from County Building Capital Reserve Fund	\$9,367,700	Represents 13.03% of total debt*
Total debt to be paid from Water and Sewer Capital Reserve Fund	\$3,239,830	Represents 4.50% of total debt
Total debt to be paid from General Fund	\$5,216,006	Represents 7.25% of total debt**
Total Installment Financing/GO Debt Outstanding June 30, 2008	\$71,921,640	

*Note that the county pays 10% of the financing that includes the Lifelong Learning Center from the County Building Capital Reserve Fund. This explains the difference in figures shown here as compared to the more detailed schedule shown in Appendix One.

**58.33% of this debt will be paid by the year 2012

In addition, Chart Three, **Summary of Debt by Type**, categorizes the debt payment into categories by type. As this chart shows, almost 76% of Rutherford County's debt is for education.

Chart Three: Summary of Debt by Type		
Total debt related to Education	\$54,543,013	Represents 75.84% of total debt
Total debt related to other public facilities	\$8,922,791	Represents 12.40% of total debt
Total debt related to Economic Development	\$5,413,235	Represents 7.53% of total debt
Various Financings for Vehicles, Equipment, and Information Technology	\$3,042,601	Represents 4.23% of total debt
Total Installment Financing/GO Debt Outstanding June 30, 2008	\$71,921,640	

Rutherford County Legal Debt Margin

The following information concerns the legal debt margin for Rutherford County. Appendix Two, **Rutherford County, North Carolina Legal Debt Margin Last Ten Fiscal Years** taken from the **Rutherford County Comprehensive Annual Financial Report** dated June 30, 2008 is the source of this information.

As the audit report states, "The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to 8% of the appraised value of property subject to taxation. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds."

Based on 2008 data, the county debt limit is detailed in Chart Four, Rutherford County, North Carolina Legal Debt Margin 2008.

Chart Four: Rutherford County, North Carolina Legal Debt Margin 2008	
Assessed value of property-January 1, 2007	\$5,763,453,025
Debt Limit*8% assessed value	\$461,076,242
Total net debt applicable to the limit	\$71,921,460
Legal debt margin	\$389,154,602
Total net debt applicable to the limit as a percentage of debt limit	15.60%

As this chart shows, the county's long term debt is \$71,921,640 as of 6-30-08. This is 15.60% of the county's potential debt by LGC (Local Government Commission) defined limits. The county has \$389,154,602 of potential additional debt capacity subject to LGC approval. However, the LGC also takes other items into consideration when reviewing financing requests such as source of payment and debt ratios.

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Components of Understanding Debt

North Carolina is unique among the 50 states in that all local government General Obligation debt must be approved and sold by the Local Government Commission. Lease-purchase or installment purchase agreements must be approved by the Local Government Commission if the agreement extends 5 or more years, if the agreement obligates the unit to pay money to another entity, if the agreement obligates the unit to pay at least \$500,000 over the term of the agreement, **and** if the agreement obligates the unit, either expressly or implicitly, to levy taxes to meet payments under the agreement. **All of the County's debt outstanding at June 30, 2008 has been approved by the Local Government Commission with the exception of the lease purchase short term debt.** The \$3.25 million loan that the County is financing in FY 2008-09 for Building Projects has also been approved by the Local Government Commission.

There are three important components analyzed under this section to better understand and analyze Rutherford County's debt ability. Those factors analyzed in this section are debt as a percent of appraised property value, debt per capita, and the amount of fund balance available for appropriation.

Rutherford County's ratios in these areas as compared to other groups similar to our County are detailed in Chart Five, **Comparison of Debt Ratios as of June 30, 2007 (Latest Information Available)**

On a debt per capita basis in three of the four comparisons made in this chart, Rutherford County's debt ratio (\$858) is below other counties; average of counties rated like Rutherford County(\$1,006 with a range of \$463 to \$1,635), average of counties with similar property values (\$1,010 with a range of \$463 to \$1,528) and state wide average (\$1,280 with a range of \$20 to \$4,592). In one category, average of counties in our population group, Rutherford County is above the group debt margin (\$716 with a range of \$72 to \$1,635).

As a percent of appraised property value, Rutherford County's debt ratio (1.272%) is lower in average of counties with similar property values (1.381% with a range of .683% to 2.225%) and statewide average (1.474% with a range of .05% to 3.858%) and above average counties rated like Rutherford County (1.254% with a range of .683% to 1.904%) and average of counties in our population group (.942% with a range of .117 % to 2.254%).

Chart Five: Comparison of Debt Ratios As of June 30, 2007 (Latest Information Available)		
	As Percent of Appraised Property Valuation	Debt Per Capita
Rutherford County	1.272%	\$858
Average of Counties Rated Like Rutherford County	1.254%	\$1,006
Average of Counties with Similar Property Values	1.381%	\$1,010
Average of Counties in our Population Group	.942%	\$716
State-wide Average	1.474%	\$1,280

One other important component to understand related to debt is fund balance found in Appendix Three, **General Fund Balance from FY2002-2003 to FY2009-2010**. Rutherford County's estimated fund balance available for appropriation on 6-30-2010 is \$11,271,369 or 19.77%. This is based on estimates made as of December 31, 2008 and assumes a reduction in fund balance of \$1.5 million over a two year period because of economic conditions. This is subject to Commissioners approved budgets. The county added \$1.8 million to fund balance in FY2007-2008. However, the point of this illustration is that **a healthy fund balance is viewed as a key component of a governmental unit's ability to repay debt.**

The latest financial ratings from Fitch Ratings, Standard & Poor's, and Moody's are provided in Appendix Four. Although the overall economy has changed since these ratings have been made, one statement is significant.

Fitch: "The "A+" rating on GO bonds reflects the county's solid financial position and moderately low debt levels with above average amortization."

Based on all professional analytical standards—debt as a percentage of appraised property value, debt per capita and fund balance, Rutherford County has made sound financial decisions as it relates to capital financing.

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Value of Debt Financing

As demonstrated throughout this report on county debt, the major purpose of this debt is school construction accounting for 76% of total debt outstanding as of June 30, 2008. Because Rutherford County has been so progressive and forward thinking, the county has made tremendous strides in school construction. Since 1990, Rutherford County has built one new high school, renovated two other high schools, built two new middle schools, renovated one other middle school, built six new elementary schools and renovated two additional elementary schools.

Appendix Five, **Average School Costs**, illustrates the increase in new school construction from 2002-2008. The average cost per square foot has increased from \$96.62 to \$167.24. Had the county not moved forward with financed construction and used a "pay as you go" concept instead, construction costs would have escalated by more than 73% during this six year time period limiting the number of facilities that could be constructed. While costs have inflated by more than 73%, the County has been able to borrow funds at attractive rates due to its healthy financial condition. Financing has allowed the buildings to be used sooner by the school system and spreads the cost of the school over the life of its users.

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Current Status of the School Capital Reserve Fund, County Building Capital Reserve Fund, and Water and Sewer Capital Reserve Fund

Sales tax is a source of revenue for the Schools Capital Reserve Fund, the County Building Capital Reserve Fund, and the Water and Sewer Capital Reserve Fund. We have updated projections for these funds over the past couple of weeks to reflect the decline in sales tax that we saw in our January and February sales tax distributions due to the economic downturn. It has been reported that the State has seen some stabilization in the sales tax figures in the past few weeks. The Article

39 sales tax, which is based on the County's economy, increased by approximately 15.5% for the six months ended December 2008 as compared to the previous year. The January and February distributions decreased 3.5% representing a total decline of 19% as compared to the July to December 2008 time period. The Article 40 and 42 sales taxes, which are based on the statewide economy, had remained relatively flat for the six months ended December 2008 as compared to the previous year. The January and February distributions decreased 23%.

Not only has the Schools Capital Reserve Fund had a declining sales tax revenue stream in the past two months, County staff was made aware of revised ADM fund projections provided by the State which have also decreased due to the decrease in corporate income taxes. In addition, we were notified at the end of February that the State is withholding approximately \$250,000 from the October to December 2008 quarterly distribution of ADM and lottery proceeds. When the county and the schools mutually agreed to a three year, \$1,000,000 technology infusion beginning in FY 2007-2008, it was stated that this would take the balance in the Schools Capital Reserve Fund lower than it had ever been, which was right at \$500,000. Due to unprecedented economic conditions resulting in declining sales tax, ADM and lottery figures, if future outflows previously planned from this fund move ahead without adjustment, the fund will have a negative balance of approximately \$2 million in FY 2012-13. As County staff continued to update projections over the past few weeks and the negative balance resulted, meetings were held with School Superintendent, Dr. John Kinlaw, to discuss efforts that could be made to reduce the projected negative balance in the fund. Projected expenditures which can be adjusted include the timing and/or the phasing in of the third phase of the schools technology plan in the amount of \$1 million, the furniture, equipment and contingency balance for Rutherfordton Elementary in the amount of \$1,450,000, and the annual miscellaneous building capital request for future years of approximately \$250,000 per year. Dr. Kinlaw and his staff are currently analyzing adjustments that can be made to these items to reduce this negative balance.

In addition, John Condrey, County Manager, and Julie Scherer, County Finance Director, met with Dr. Myra Johnson, ICC President, and Stephen Matheny and mutually agreed to postpone the additional phasing in of the college receiving sales tax funds that had previously been used for schools. The college currently receives 6% of the Article 40 sales tax (or approximately 3% of the combined Articles 40 and 42) and were scheduled to receive 8% of Article 40 in FY 2009-10 and 10% of Article 40 in FY 2010-11, resulting in 5% of the combined Article 40 and 42 sales taxes. These increases will be postponed until FY 2011-12 and FY 2012-13.

The County Building Capital Reserve Fund balance is projected to be approximately \$900,000 as of June 30, 2009 and will then increase each fiscal year until such time the County decides to move forward with other projects. The County has not yet entered into a financing to reimburse itself for the approximate \$2.2 million that

was spent for the Moss and Littlejohn properties at the Daniel Road complex. If the County does move forward with financing this reimbursement, the reimbursement will provide further cash up-front to help leverage more projects in the few years.

The Water and Sewer Fund projections include the FY2009-10 planned issuance of two-thirds GO Bonds for the projects the Board approved in May 2008. The Water and Sewer Fund Balance is projected to be at a low of \$754,002 in FY2017-18.

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Summary

This report focuses on providing an historical perspective on Rutherford County debt over the last twenty years. As of June 30, 2009 the estimated debt balance (\$69,983,857) and debt reduction (\$69,577,267) are approximately equal as a result of actions over this twenty year period. Rutherford County's debt based on the county's theoretical ability to pay is at a seven year low. However, because of worldwide economic issues, County Commissioners have taken a judicious approach to new debt with the exception, for the most part, of completing projects that had already commenced. Any remaining projects are in planning stages until Commissioners approve moving forward.

Rutherford County's current debt is divided into four categories: public school financing, county building financing, water and sewer financing and lease purchase short term debt. Over 75% of the existing county debt is for school construction and the funds used for repayment are required to be spent for school construction. Of the remaining 25%, the county has dedicated revenue streams that account for 17.53% of the projects leaving 7.25% of existing debt to be paid by the general fund.

Rutherford County's debt, based on professional analysts statements, emphasize that the county has positioned itself in a "solid financial position and moderately low debt level". In addition, the county is soundly positioned in the three major debt service analytical considerations –debt as a percent of appraised property value, debt service per capita, and fund balance.

The current status of the County Building Reserve Fund and the Water and Sewer Capital Reserve Fund is good. The School Capital Reserve Fund by virtue of the economy and the State withholding of funds will need to be scaled back from earlier anticipated expenditures. The county and school staff will continue to monitor the fund and keep both Boards informed on the fund's status.

By utilizing debt, Rutherford County has addressed a number of needs that allowed facilities to be built and used by the citizens of the county starting in the early 1990's. If the county had not taken that approach, building prices would have been

greatly higher and the number of projects completed would be far less than what has been accomplished.

APPENDIX ONE

DETAIL FOR RUTHERFORD COUNTY DEBT

APPENDIX ONE: Detail for Rutherford County Debt 6/30/08

Debt Related to Public School Financing/Education:				Amount Outstanding	Source of Payment	Final Payment
RS Central, Forrest Hunt, Chase Middle, Renovated East and Chase High Schools Technology				\$ 5,865,000	School Cap Reserve	2011
Dunbar and Harris Elementary Expansion				\$ 920,742	School Cap Reserve	2012
Rutherforddon Elem Land, Lifelong Learning Ctr, Chase/East High Roof Replacement				\$ 4,097,989	School Cap Reserve	2020
Spindale Elementary, Ellenboro Elementary, Chase Middle Expansion				\$ 4,449,089	90% School/10% County Bldg Cap Reserve	2021
Sunshine Elementary				\$ 16,317,138	School Cap Reserve	2023
RS Middle and Forest City Elementary renovation, other miscellaneous				\$ 6,315,000	School Cap Reserve	2023
Rutherforddon Elementary (includes \$741,000 premium to be amortized)				\$ 1,185,000	School Cap Reserve	2023
				\$ 15,393,055	School Cap Reserve	2027
Total Debt Related to Public School Financing/Education				\$ 54,543,013	Represents 75.84% of Total Debt	
Debt Related to County Building Financing/Economic Development				Amount Outstanding	Source of Payment	Final Payment
Senior Center Expansion, Spindale Library Expansion, Renovate Courthouse				\$ 2,125,000	County Bldg Cap Reserve	2016
Rutherford Center, Western Library/EMS, Detention Center, Senior Center/Cooperative Ext, Courthouse Addition				\$ 6,797,791	County Bldg Cap Reserve	2021
Economic Development: Purchase of Old Burlington Property (currently Corp 74 Ctr)				\$ 960,071	General Fund	2017
Economic Development: Grading of Corporate 74 Center property				\$ 1,213,334	General Fund	2022
Total Debt Related to County Building Financing/Economic Development				\$ 11,096,196	Represents 15.43% of Total Debt	
Debt Related to Water and Sewer				Amount Outstanding	Source of Payment	Final Payment
Water and Sewer Projects Two-thirds GO Bonds				\$ 1,370,000	Water and Sewer Reserve Fund	2026
Water and Sewer Projects (DENR Loan)				\$ 314,830	Water and Sewer Reserve Fund	2027
Water and Sewer Projects Two-thirds GO Bonds				\$ 1,555,000	Water and Sewer Reserve Fund	2028
Total Debt Related to Water and Sewer				\$ 3,239,830	Represents 4.50% of Total Debt	
Lease Purchase Short Term Debt				Amount Outstanding	Source of Payment	Final Payment
Various				\$ 3,042,601	General Fund and 911 Fund	2012
Total Debt Related to Lease Purchase Short Term Debt				\$ 3,042,601	Represents 4.23% of Total Debt	

APPENDIX TWO

RUTHERFORD COUNTY, NORTH CAROLINA LEGAL DEBT MARGIN (LAST TEN FISCAL YEARS)

**Rutherford County, North Carolina
Legal Debt Margin
Last Ten Fiscal Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Assessed value of property	\$ 3,016,564,563	\$ 3,087,216,060	\$ 3,134,189,340	\$ 3,211,673,362
Debt limit	241,325,165	246,977,285	250,735,147	256,933,869
Total net debt applicable to limit	25,820,000	23,590,000	21,365,000	19,145,000
Legal debt margin	<u>\$ 215,505,165</u>	<u>\$ 223,387,285</u>	<u>\$ 229,370,147</u>	<u>\$ 237,788,869</u>
Total net debt applicable to the limit as a percentage of debt limit	10.70%	9.55%	8.52%	7.45%

Note: The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to 8% of the appraised value of property subject to taxation. By law, general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Fiscal Year

Table 12

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
929,689,345	\$ 3,900,697,986	\$ 3,952,493,750	\$ 4,101,537,258	\$ 4,268,223,139	\$ 5,763,453,025
314,375,148	312,055,839	316,199,500	328,122,981	341,457,851	461,076,242
60,556,191	57,140,177	53,864,028	55,990,633	58,234,288	71,921,640
253,818,957	\$ 254,915,662	\$ 262,335,472	\$ 272,132,348	\$ 283,223,563	\$ 389,154,602
19.26%	18.31%	17.03%	17.06%	17.05%	15.60%

Legal Debt Margin Calculation for Fiscal Year 2008

Assessed value - January 1, 2007	\$ 5,763,453,025
Debt Limit (8% of total assessed value)	\$ 461,076,242
Debt applicable to limit:	
General obligation bonds	9,975,000
Other outstanding debt	61,946,640
Net debt applicable to limit	71,921,640
Legal debt margin	\$ 389,154,602

APPENDIX THREE

GENERAL FUND BALANCE FROM FY2002-2003 TO FY2009-2010

GENERAL FUND BALANCE CALCULATIONS

FISCAL YEARS 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008 and Estimates for FY 08-09 and 09-10

	FY 2002-2003 ACTUAL	FY 2003-2004 ACTUAL	FY 2004-2005 ACTUAL	FY 2005-2006 ACTUAL	FY 2006-2007 ACTUAL	FY 2007-2008 ACTUAL	FY 2008-2009 ESTIMATE	FY 2009-2010 ESTIMATE
Fund Balance Available for Appropriation:								
Cash and Investments	\$ 7,810,710	\$ 10,030,758	\$ 9,814,874	\$ 11,102,157	\$ 11,453,342	\$ 10,219,722	\$ 12,869,722	\$ 11,869,722
Accounts Payable	(301,408)	(602,854)	(241,380)	(270,971)	(566,489)	(384,360)	(384,360)	(384,360)
Prepaid Taxes	(240,919)	(229,867)	(285,818)	(132,737)	(168,512)	(213,993)	(213,993)	(213,993)
Fund Balance Available for Appropriation	\$ 7,268,383	\$ 9,198,037	\$ 9,287,676	\$ 10,698,449	\$ 10,718,341	\$ 9,621,369	\$ 12,271,369	\$ 11,271,369
Annual Increase (Decrease) in Fund Balance Available:	\$ 1,785,884	\$ 1,929,654	\$ 89,639	\$ 1,410,773	\$ 19,892	\$ (1,096,972)	\$ 2,650,000	\$ (1,000,000)
Total Expenditures	\$ 37,236,704	\$ 39,863,803	\$ 42,586,797	\$ 44,533,893	\$ 47,328,134	\$ 50,769,276	\$ 61,000,000	\$ 57,000,000
Total Transfers to Other Funds	7,243,762	5,894,373	5,938,548	6,507,933	6,945,015	8,704,929		
Lease Purchase Proceeds	(576,905)	(737,336)	(839,509)	(1,135,300)	(1,236,400)	(1,965,483)	(1,477,013)	
Expenditures to Use for Calculation	\$ 43,903,561	\$ 45,020,840	\$ 47,685,836	\$ 49,906,526	\$ 53,036,749	\$ 57,508,722	\$ 59,522,987	\$ 57,000,000
% of Fund Balance Available	16.56%	20.43%	19.48%	21.44%	20.21%	16.73% *	20.62% **	19.77% ***

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* The decrease in fund balance available for appropriation in FY 2007-08 was due to the General Fund loaning the Capital Projects Fund \$3,150,000 related to the Daniel Road land purchase and the Offsite Storage Facility purchase.

** The increase in fund balance appropriated in FY 2008-09 projects that the General Fund is replenished for the \$3,150,000 loan and \$500,000 is spent from fund balance for the lease purchase items that were carried over from FY 2007-08.

*** Assumes that \$1 million in fund balance will be spent in FY 2009-10. This is based on no expansion in FY 2009-2010 and an additional \$500,000 - \$650,000 in cuts.

APPENDIX FOUR

FINANCIAL RATINGS FROM FITCH RATINGS, STANDARD & POOR'S, AND MOODY'S

FITCH US MUNI SURVEILLANCE: RUTHERFORD COUNTY, NC GOS AFFIRMED AT 'A+'; COPS AT 'A'

Fitch Ratings-New York-20 October 2008: In the course of routine surveillance, Fitch Ratings affirms the following outstanding debt ratings for Rutherford County, North Carolina (the county):

- \$10 million general obligation (GO) bonds 'A+';
- \$23 million certificates of participation (COPs), series 2002 'A'.

The Rating Outlook is Stable.

The 'A+' rating on the GO bonds reflects the county's solid financial position and moderately low debt levels with above-average amortization. The county's limited economy is centered on manufacturing, and economic indicators (including unemployment and income) are below-average relative to the state and the nation.

The 'A' rating on the COPs reflects the standard lease provisions, the essentiality of the financed projects, and the fact that COP payments are subject to annual appropriation, as well as the general credit characteristics of the county. Mortgaged property conveyed under the deed of trust includes the three financed schools, whose essentiality provides sufficient incentive to appropriate. Due to the county's improved financial performance, exemplified by the increased reserve levels, the rating no longer incorporates a one-notch enhancement reflecting the financial oversight of the North Carolina Local Government Commission. The Stable Rating Outlook reflects Fitch's expectation that continued conservative financial planning will allow the county to maintain its solid financial position, despite potential vulnerability from housing market softening and the broader economic slowdown.

County financial operations are stable, and available reserves, which have increased since the beginning of the decade, should provide an adequate cushion to weather potential shortfalls. Fiscal 2007 closed with an unreserved fund balance of \$10.6 million, equal to 19.5% of spending, which is a significant increase from the unreserved fund balance in Fiscal 2002 of \$5.2 million and 12.9% of spending. While the county plans to use a portion of fund balance in Fiscal 2008 for a land purchase, the expectation is such that the county will reimburse itself for monies spent through a debt financing in 2009, thereby replenishing reserves.

Rutherford County is located in the Blue Ridge Mountains in western North Carolina, about 70 miles west of Charlotte. Its population of 63,012 has remained flat this decade, in contrast to the moderate 10.5% growth of the 1990s. Sales in new residential developments have stagnated, although home prices increased on a year-over-year basis in the second quarter of 2008. While the county's economy remains concentrated in manufacturing and is therefore somewhat vulnerable during periods of economic softening, efforts have been made to diversify the employment and tax bases. Growth in the tax base has been modest; a revaluation effective for Fiscal 2008 resulted in a 33% increase in the county's tax base.

Contact: Jaissy Lorenzo +1-212-908-9167, or Alexandra Knight +1-212-908-9181, New York.

Note: Fitch issued an exposure draft on July 31, 2008 proposing a recalibration of tax-supported and water/sewer revenue bond ratings which, if adopted, may result in an upward revision of this rating (see Fitch research 'Exposure Draft: Reassessment of the Municipal Ratings Framework'). At this time, Fitch is deferring its final determination on municipal recalibration. Fitch will continue to monitor market and credit conditions, and plans to revisit the recalibration in the first quarter of 2009.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

Rutherford County, North Carolina

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Credit Profile

US\$1.555 mil GO bonds ser 2008 due 06/01/2009-2028

<i>Long Term Rating</i>	A/Stable	New
Rutherford Cnty GO		
<i>Long Term Rating</i>	A/Stable	Affirmed
Rutherford Cnty GO (FSA)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Rutherford Cnty GO (MBIA)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

The 'A' rating on Rutherford County, N.C.'s GO bonds series 2007 reflects the county's:

- Steadily expanding and diversifying tax base,
- Sound financial performance, and
- Low overall debt burden with limited future capital needs.

Tempering these credit strengths is the county's limited local economy, which is concentrated in the manufacturing sector and characterized by above-average unemployment rates and below-average income levels.

The 'A' rating on the county's previously issued GO debt has been affirmed.

The bonds are general obligations of the county for which it pledges its full faith and credit. The county will use proceeds from the sale of the bonds to provide loans and grants to municipalities, water authorities, and sanitary districts for the extension of water and sewer service in the county.

Rutherford (2006 population: 63,867) is a suburban county in the Blue Ridge Mountains in western North Carolina. The county's residential real estate market, especially in the Lake Lure area, serves as a main driver for tax base appreciation, and growth has been solid—between fiscals 2000 and 2007, total assessed valuation (AV) increased by more than 38% to an estimated \$4.27 billion. This increase included a reassessment in 2002 and a decline in AV in fiscal 2004 due to declines in machinery and equipment personal property AV associated with textile firm closures. Following a reassessment effective fiscal 2007, the AV will again jump to roughly \$5.6 billion. The county's financial performance remains sound. In fiscal 2007, the county posted a healthy general fund operating surplus of \$578,000, pushing the county's unreserved general fund balance total to nearly \$10.6 million, or a sound 19.6% of operating expenditures. Taxes accounted for 68% of total revenues in fiscal 2007, and expenditures came largely from human services (26.1%), education (21.3%), and public safety (21.1%). The county's unreserved fund balance has increased steadily since 2002 and has averaged 14.26% of expenditures over that period. The fiscal 2008 budget of \$61.4 million is balanced, and includes a property tax rate of 53 cents per \$100 of AV, down 8 cents from 2007 due to reassessment. According to management, the \$1.1 million appropriation of fund balance will likely not be used, given the anticipation of surpluses at fiscal year-end 2008.

Rutherford County's management practices are considered "standard" under Standard & Poor's Financial Management Assessment (FMA). An FMA of standard indicates that the finance department maintains adequate policies in some but not all key areas.

Following this issuance, Rutherford County's overall debt burden is a low \$1,178 per capita and 1.8% of market value. Debt service carrying charges have historically been high, measuring between 11% and 12% of general, special revenue, and debt service fund expenditures. Amortization is moderate, with 48% of debt retired within 10 years and 100% in 20. The county intends on additional borrowing in fall 2008 to fund various capital projects.

Outlook

The stable outlook reflects the expectation that the county's economy will continue to expand and diversify. Ongoing economic development should cause the trend of declining unemployment rates to continue. The outlook is also reflective of the county's sound financial and debt positions and limited future debt needs.

Economy

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The textile manufacturing sector has seen a sharp decline since the 1990s, when six of the leading 15 taxpayers were from that sector. The county's commercial base is presently expanding with some new entrants, including Tracker Marine and First Choice Armor, which manufactures bulletproof vests. Rutherford's leading employers include Rutherford Hospital (871), the Rutherford school system

(750), Rutherford County (534), Isothermal Community College (475), and Wal-Mart Stores Inc. (450). Between 2002 and 2004, the county's annual unemployment rate spiked to levels of more than 10.6%, although the 2006 unemployment rate measured lower at 7.9%. The county's income levels remain below average, as evidenced by median household effective buying incomes that measured 81% and 74% of the state and national levels, respectively, in 2006. The county's per capita effective buying income exhibits similar trends. Per capita market value is a solid \$66,830.

Financial Management Assessment: 'Standard'

Rutherford County's management practices are considered "standard" under Standard & Poor's FMA. An FMA of standard indicates that the finance department maintains adequate policies in some but not all key areas. The district uses assumptions based on historical data to plan its budget and reports revenue and expenditure performance to budget monthly to the governing board. The county does not currently have a long-term capital plan in place, but it is in discussions to implement a 10-year plan in the future that indicates project costs and proposed funding sources. The district does not have formal debt management or general fund balance policies in place at this time.

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The McGraw-Hill Companies

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Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, NY 10007

December 18, 2007

Ms. Julie Scherer
Rutherford County, NC
289 N Main Street
Rutherfordton, NC 28139

Dear Ms. Scherer:

We wish to inform you that on November 28, 2007, Moody's Rating Committee reviewed and assigned a rating of A3 to Rutherford County, NC's Certificates of Participation, Series 2007 issued through Rutherford County Public Facilities Company.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Elizabeth Bergman, at 212-553-4648.

Sincerely,

Patrick C. Mispagel
Vice President/Senior Analyst

cc: Mr. Matt Burge
Wachovia Bank
301 South College Street NC0612, 9th Floor
Charlotte, NC 28202



Moody's Investors Service

Global Credit Research

New Issue

30 NOV 2007

New Issue: Rutherford (County of) NC

MOODY'S ASSIGNS A2 GO AND A3 COPS RATINGS TO RUTHERFORD'S COUNTY'S (NC) \$1.5 MILLION GO BONDS AND \$15.3 MILLION CERTIFICATES OF PARTICIPATION

AFFIRMS A2 RATING ON \$13.8 MILLION OF OUTSTANDING GO DEBT

Rutherford (County of) NC
County
NC

Moody's Rating

ISSUE	RATING
Certificates of Participation, Series 2007	A3
Sale Amount \$15,350,000	
Expected Sale Date 12/12/07	
Rating Description Certificates of Participation	

Opinion

NEW YORK, Nov 30, 2007 – Moody's Investors Service has assigned an A2 rating to Rutherford County's (NC) \$1.5 million General Obligation Bonds, Series 2006 and an A3 rating to the county's \$15.3 million Certificates of Participation, Series 2007, issued through the Rutherford County Public Facilities Corporation. The GO bonds are secured by an unlimited ad valorem tax pledge of the county and will fund water and sewer line extensions. The A2 reflects a diversifying rural taxbase in western North Carolina, an average debt burden and solid financial position. Concurrently we have affirmed the A2 rating on \$13.8 million of outstanding GO debt.

The Certificates of Participation (COPs) are secured by installment payments, subject to annual appropriation, and by recourse to an essential school building (Rutherfordton Elementary) in the event of non-appropriation. The COPs will fund construction of a Rutherfordton Elementary. The rating reflects the essential nature of the pledged asset, adequate legal provisions for certificate-holders, and the long-term rating characteristics of the county itself.

SATISFACTORY LEGAL PROTECTIONS FOR CERTIFICATE HOLDERS; ESSENTIAL ASSETS PLEDGED AS COLLATERAL

Moody's believes that the essential nature of the pledged assets mitigates the risk of non-appropriation by the county, and that other legal provisions adequately protect certificate-holders. In the event of non-appropriation, the county would lose title to an elementary school and the land on which it sits, providing collateralization of over 100% of outstanding principal under the Trust Indenture. The county will make payments under the Installment Purchase Contract directly to the Trustee, at least five days prior to debt service payment dates. Further strengthening security, the county has covenanted to include the appropriation in its preliminary budget, and it must be removed from the annual budget by an affirmative vote of the county commission. Under the Installment Purchase Contract title insurance will also be secured by the county.

RURAL WESTERN NORTH CAROLINA TAXBASE WITH DIVERSIFYING MANUFACTURING SECTOR AND NEW RESIDENTIAL PROPERTIES

Moody's expects that the county's \$5.6 billion taxbase in the foothills of the Smoky Mountains will benefit from county efforts to diversify the taxbase. Included in the diversification is development of high-end residences, mostly targeted at retirees. County officials report that 12,000 acres are in active subdivision and 2,700 residential units are expected over the next 10 years. While 1,100 lots have been sold, significant housing construction has not begun. Following a revaluation, the 2008 taxbase grew to \$5.6 billion, a 33% increase over the previous year, reflecting, in part, the new high end subdivisions. The top taxpayers list has diversified over the last several years and leaving only three textiles and furniture manufacturers on the top ten taxpayers list, which comprise only 1.5% of that list. Economic development efforts have been focused on diversifying the county's manufacturing base toward chemicals, plastics and automobiles. Duke Energy, which represents 4.3% of the county's taxbase, is making improvements to its coal-fired power generation

facility; the construction is expected to generate 2,000 construction jobs in the medium term. Growth in the building trades, supported by Duke Energy and residential construction and job training assistance from the states, are expected to have a positive impact on unemployment levels, which have been elevated for most of the past decade, with a recent high of 13.2% in February 2003. August 2007 levels, 6.5%, reflect a moderation, but remain above the state and national rates (4.7% and 4.6% respectively).

AVERAGE DEBT BURDEN EXPECTED TO INCREASE BUT REMAIN MANAGEABLE

Moody's expects that the county's debt position will increase, but remain manageable, given additional borrowing plans and average debt burden (1.3% direct debt). The county's debt plans include \$8.5 million and \$9 million of installment purchase contracts in 2008 and 2009 respectively. Current debt amortizes rapidly with 59.8% of all principal retired within 10 years.

STABLE RESERVE POSITION WITH CONSERVATIVE MANAGEMENT PRACTICES

Moody's believes the county's financial position will remain healthy given conservative management practices and a track record of stable reserves, which have approximated 27% over the last four years. The county has generated operating surpluses each of the last five years reflecting conservative budgeting. In 2007 the county added \$577,000 to reserves, despite the appropriation of \$2.2 million of reserves as a revenue in the budget, through an underspending of appropriations, and ended the year with \$15 million in General Fund balance (27.4% of revenues). Evidencing additional financial flexibility, the county maintains two capital reserve funds, one county and one for school purposes; at the end of 2007 these equaled \$824,000 and \$1.5 million respectively. While the 2008 budget includes the use of \$1.2 million of reserves as a revenue source, we do not expect that the county will use the reserves given the county's history of replenishing appropriated reserves. The budget does not include any impact of the state's recent reform in Medicaid funding. However, moving forward the county expects reform will have a positive financial impact on its financial condition given that Medicaid expenses have been growing faster than sales tax revenues.

KEY FACTS:

2006 Population: 63,867

2006 Full Valuation: \$5.7 billion

Full Value Per Capita: \$89,098

1999 Per Capita Income as % of State: 80.1% (75.5% of the US)

1999 Median Family Income as % of State: 81.6% (64.9% of the US)

Debt Burden: 1.3%

Payout of Principal (ten years): 59.8%

Unemployment Rate (8/07): 6.5 %

FY07 Total Fund Balance: \$15 million (27.4% of General Fund Revenues)

Analysts

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Backup Analyst
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Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, NY 10007

January 03, 2008

Julie Scherer
Rutherford (County of) NC
289 N Main Street
Rutherfordton, NC 28139

Dear Ms. Scherer:

We wish to inform you that on November 28, 2007, Moody's Rating Committee reviewed and assigned a rating of A2 to Rutherford (County of) NC's General Obligation Bonds, Series 2008.


In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Elizabeth Bergman, at 212-553-4648.

Sincerely,


Patrick Mispagel
Vice President/Senior Analyst

cc:
Martha Lasater
Local Government Commission, NC
325 N. Salisbury St.
Raleigh, NC 27603-1385



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APPENDIX FIVE

AVERAGE SCHOOL COSTS

AVERAGE SCHOOL COSTS

	#	Total Cost	Building Area	Cost/sq.ft.
Year : 2008				
Elementary	19	\$239,900,428	1,677,150	\$143.04
Middle	5	\$113,436,598	755,709	\$150.11
High	5	\$224,397,830	1,014,839	\$221.12
Other	1	\$14,370,000	92,681	\$155.05
Totals/Avg:	30	\$592,104,856	3,540,379 sq.ft.	\$167.24
Year : 2007				
Elementary	29	\$396,145,543	2,615,460	\$151.46
Elem/Middle	1	\$19,233,500	118,616	\$162.15
Middle	6	\$104,558,992	680,766	\$153.59
High	6	\$207,519,405	1,201,516	\$172.71
Other	1	\$9,829,584	72,839	\$134.95
Totals/Avg:	43	\$737,287,024	4,689,197 sq.ft.	\$157.23
Year : 2006				
Elementary	26	\$349,860,511	2,418,474	\$144.66
Middle	4	\$61,742,226	473,366	\$130.43
High	7	\$185,518,210	1,164,514	\$159.31
Other	2	\$18,907,505	134,286	\$140.80
Totals/Avg:	39	\$616,028,452	4,190,640 sq.ft.	\$147.00
Year : 2005				
Elementary	17	\$206,067,375	1,526,896	\$134.96
Middle	5	\$89,544,208	627,668	\$142.66
High	5	\$184,265,946	1,157,586	\$159.18
Other	1	\$18,891,440	122,488	\$154.23
Totals/Avg:	28	\$498,768,969	3,434,638 sq.ft.	\$145.22
Year : 2004				
Elementary	13	\$127,795,581	1,147,196	\$111.40
Middle	6	\$84,851,883	732,256	\$115.88
High	5	\$155,420,887	1,334,621	\$116.45
Other	1	\$18,709,000	155,164	\$120.58
Totals/Avg:	25	\$386,777,351	3,369,237 sq.ft.	\$114.80
Year : 2003				
Elementary	15	\$114,610,674	1,204,469	\$95.15
Elem/Middle	1	\$10,612,350	102,000	\$104.04
Middle	5	\$54,946,432	614,192	\$89.46
High	4	\$83,834,609	797,494	\$105.12
Totals/Avg:	25	\$264,004,065	2,718,155 sq.ft.	\$97.13
Year : 2002				
Elementary	18	\$146,057,689	1,531,003	\$95.40
Middle	7	\$79,314,526	873,810	\$90.77

Costs are contract amounts for new schools and do not include land, furnishings, design fees, surveys, testing or legal expense. All schools are not included - only reports received.

SCHOOL PLANNING, NCDPI
10-Dec-08

AVERAGE SCHOOL COSTS

	#	Total Cost	Building Area	Cost/sq.ft.
High	2	\$46,693,281	413,525	\$112.92
Other	1	\$4,540,500	44,489	\$102.06
Totals/Avg:	28	\$276,605,996	2,862,827 sq.ft.	\$96.62

Costs are contract amounts for new schools and do not include land, furnishings, design fees, surveys, testing or legal expense. All schools are not included - only reports received.

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